



U.S. Department of State FY 2001 Country Commercial Guide: Zimbabwe

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SECTION I: EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Zimbabwe's commercial environment, incorporating economic, political and market analyses. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Zimbabwe's 2000 economic prospects are shadowed by the economy's 1999 and 2000 to-date negative growth performance, a critical hard currency shortage, high inflation (60 percent plus), declining disposable incomes, and state-sanctioned violence and intimidation in the run-up to parliamentary elections. GDP growth in 1999 shrunk by at least an estimated 0.5 percent, and early estimates for 2000 are that national economic production will shrink at least 2.5 percent. Since late 1999 the IMF's program with Zimbabwe (a 14-month, U.S. \$193 million standby credit facility approved in August 1999) has remained suspended due to non-compliance with conditions. The suspension has put on hold the approval of new credit lines and disbursement from already-approved lines by lenders such as the World Bank, the EU, the African Development Bank and others. In addition, in May 2000 the Government of Zimbabwe passed the 60-days-in-arrears mark on payments due the World Bank (though IMF payments have kept current over the same period), which has caused the suspension of funding of projects already approved by that institution.

While it is likely that the Government of Zimbabwe will approach and seek the re-establishment of relations and credit facilities with the Bretton Woods institutions after parliamentary elections held at the end of June 2000, it is unclear what fruits these efforts will yield. Zimbabwe's economy has deteriorated to such an extent that the political costs of complying with the lender's program requirements may not be acceptable to the ruling party that still retains its control position. The opposition's strong showing, however, will almost certainly create a period of flux and uncertainty until policy, senior government personnel and operating methodologies are worked out.

Nevertheless, to be successful at renewing relations with the multilateral lenders the post-election government will need to carry out fiscal policy tightening; extensive civil service consolidation and reform; realization of privatization goals; financial sector reforms; export boosting; increased equity and quality in social service delivery; successful land reform program execution; and the utilization of strong monitoring and commitment mechanisms. Overall, both institutions are attempting to restart movement, stalled in recent times, on Zimbabwe's shift from a state-dominated economy toward a more open, market-based economy. A serious threat to this open-market approach is that a reelected Mugabe-led government may revert to greater state-control of the economy through the reimposition of a wider array of price controls, foreign exchange controls, import licensing, and other tools it favored in the early years of Independence.

The balance of payments situation and outlook remains extremely dire, and will be a major problem for coming years, even with very large and sustained balance of payments support. For example, as of June 2000 foreign currency arrears, for both the private and public sectors, have exceeded Zimbabwe Dollars \$20 billion, or more than U.S.\$500 million at the official, pegged exchange rate of Z\$38 to U.S.\$1 (fixed since January 1999). Any devaluation will raise the domestic cost of servicing these arrears by a commensurate proportion. The country's desperate foreign currency shortage, which along with corruption and mismanagement at the national oil company, has caused a severe fuel shortage. The foreign currency shortage has also started to severely damage the operations and viability of the manufacturing and mining sectors. Recent farm invasions also pose a very serious threat to the viability of the country's arguably most-important productive sector, with acute potential consequences on exports and food self-sufficiency. Continued difficulties in implementing the negotiated cease-fire to the hostilities in the Democratic Republic of the Congo bode ill for the repatriation of Zimbabwean troops and the elimination of this off-budget, very sizable drain of extremely scarce resources.

Notwithstanding the current very difficult and challenging investment and operating environment confronting Zimbabwe's companies and businesses, there are a number of high-growth potential areas. Tourism and horticulture have, until the end of 1999, been displaying strong growth rates aided operationally by their hard currency receipts. Though the benefit has been severely diluted in recent times due to high domestic inflation and a fixed exchange rate, industries and companies earning at least a quarter of their income in foreign exchange are generally in a much better position to stay afloat and grow. Over the last two years a plethora of negative factors have caused exports to shrink. Companies with a high import component in their product mix have seen their profits squeezed, especially if they face high demand elasticity. Besides increased import prices, it is expected that companies will face higher costs in the near term for labor, energy and utilities. High inflation and continued very high government deficits financed to a large extent by domestic market borrowings have made capital very scarce and expensive (even though real interest rates at present are marginal or negative).

For American firms the best opportunities may lie in buyouts or joint ventures where outside capital and new technology can be brought to the table. Many companies, small, medium and large, are willing to discuss equity linkages if the foreign partner can provide financial relief and

working capital or credit lines. Increasing exports from America will continue to be very challenging, as the outlook is for a weaker local currency exacerbated by high tariffs and duties (making imported products more expensive), though both the IMF and the World Bank will push, if lending programs are enacted, to roll tariffs back. Attitudes toward the United States as a source of supply are excellent, especially among members of the private sector; however, a strong initial commitment and effort are required to enter the market.

The recent passage of the African Growth and Opportunity Act by Congress may have sizable benefits for Zimbabwe, particularly for the domestic textile industry, and may assist Zimbabwe in turning around a severely deteriorating situation. The successful negotiation of a more-balanced bilateral trade accord with South Africa, Zimbabwe's largest trading partner, appears problematic at this time with South Africa saying that a regional accord will take precedence over any bilateral agreement. (The previous bilateral trade accord expired in 1992 and many in Zimbabwe argue that a new accord is necessary to redress systemic and outdated restrictions and limits which disadvantage the smaller country.) It is hoped that the adoption later this year of the South African Development Community's (SADC) Trade Protocol will benefit Zimbabwe's balance of trade and foreign reserve position.

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SECTION II: ECONOMIC TRENDS AND OUTLOOK

Government Economic Reform: The Government of Zimbabwe (GOZ) has, even by its own standards and admission, proceeded slowly and in fits and starts on economic reform. It launched the Zimbabwe Program for Economic and Social Transformation (ZIMPREST) 1996-2000 in April 1998 as phase two of its 1991-1995 Economic Structural Adjustment Program (ESAP). The program's "Growth with Equity" focus aimed to combat rising unemployment and poverty, reduce double digit inflation and interest rates, facilitate public and private savings, pursue economic empowerment, invest in human resource development and provide a social safety net. Implementation, however, has been spotty with the price of many major commodities and food staples controlled, formally or informally, by the government (for example sugar, oil, bread, flour, dairy products and mealie meal, or ground maize), and parastatals dominating many sectors. Growth targets have not been achieved and per-capita incomes in real terms have fallen since independence in 1980, while unemployment has grown. Though in 1998 the GOZ was

successful in efforts to trim back its deficit, 1999 and projected results for 2000 are disastrous from a sustainable-deficit standpoint. The 1999 government budget deficit is estimated to be at least 12 percent of GDP, while for 2000 the deficit may very likely exceed 22 percent of GDP. A faster rate of GDP shrinkage in the second half of the year (perhaps caused by post-election turmoil or the continuation of destructive economic policies) could cause even worse budget deficit results.

Economic Outlook: Though the government has yet to release final budget results and trade figures for 1999, the finance sector and business community predict that real GDP growth will have shrunk by 0.5 to 1.5 percent. The outlook for 2000 is a GDP drop of at least five percent, though the fall could be larger if actions by the government following the elections fail to halt the severe economic slide now being experienced. Many in Zimbabwe label 1999 and 2000 as the country's worst years, both economically and politically, since independence. Inflation averaging over 60 percent, shrinking production and disposable incomes, a fall in exports, very high interest rates, reduced business confidence, fuel shortages and a crippling hard currency shortage, and a host of domestic political issues combined to ensure only very poor results. This year the balance of payments situation and outlook is extremely bad, and relief, if it comes, will have to come from the multilateral lenders and donors. Zimbabwe's resumption of ties with the multilateral lenders and commitment to returning to a disciplined program of integrated economic reform is, in our opinion, a necessity. Failing to adhere to that course, and returning to old habits and behavior patterns will have even more serious negative consequences for the country.

Agriculture is the backbone of Zimbabwe's economy and nearly 75 percent of the populace relies on it directly to make a living or survive, either by commercial or subsistence farming, or in related industries. The amount of rainfall has traditionally been the determining factor in Zimbabwe's agricultural productivity. In the last two years, the pegged currency in tandem with high inflation, exacerbated by the lack of foreign currency to buy necessary inputs and market distortions caused by price controls on food staples, have made total production a guessing game. To better cope, both large and medium-scale white and indigenous commercial farmers are increasingly looking to export markets and hard currency earnings to insulate them from the substantial economic buffeting they have suffered in recent years. Tobacco, tea and coffee have traditionally filled these roles, and, more recently, specialty food crops targeted at the EU's markets (for example baby corn, snow peas, brussel sprouts, paprika, and fresh-cut flowers) have become peaks of excellence and growth. As long as government interference in the forms of price controls and regulation is minimal, and a more stable and conducive environment is supported, many believe that this horticultural boom can continue, provided the industry remains nimble, willing to reinvest and does not become complacent in terms of technology and product.

Land reform is a longstanding and very sensitive issue in Zimbabwe. Unfortunately, since the ruling party was handed a defeat in the February Constitutional Referendum, politically-motivated and state-sanctioned violence and invasions of farms (over 1400 commercial properties out of about 4500 have been affected) have had very serious negative consequences on productivity and the outlook for this all-important sector. Up to February 2000 all farms

acquired to carry out land reform had been purchased on a willing buyer/seller basis and compensation paid in full at market rates. The recent actions by the “war veterans” that are sanctioned by the country’s leadership are a threat to the continued viability of commercial farming in Zimbabwe, at least by those currently engaged in it. How this occupation and reform process will pan out we cannot. If donor support is to be maintained and if commercial farmers are to continue feeding the nation and producing exports, law and order must be restored and a return to the principles agreed to at the September 1998 Land Reform Donors Conference must be carried out. Given that agriculture's overall share of the economy is at least 40 percent (counting formal and informal sectors), the threat to the sector is literally life-threatening. If a reasonable and workable solution to land reform is obtained, the sector will continue to offer opportunities for U.S. companies that cater to the industry, though Zimbabwe's opposition to genetically-modified organisms may stunt U.S. involvement or sales in this sub-sector.

Manufacturing, which has suffered extensively in recent years, is a victim of high capital costs, declining real consumer incomes, critical fuel and hard currency shortages, and a consequent lack of imported components. While it nevertheless showed some positive growth in the first half of 1999 (due to small gains in export volume and domestic sales gains made over, due to currency depreciation, more expensive imported goods), second half results were down. Considering the environment and challenges faced, the results are a testament to the sector's resiliency and flexibility. Production this year is expected to drop considerably due to the factors already mentioned. Providing gutting of the sector does not occur from either bad government policies or sheer neglect, manufacturing has the ability to lead the country towards dynamic real growth in an outward-oriented recovery. The recent passage by the U.S. House of Representatives of the Africa Growth and Opportunity Act presents real prospects of better markets to portions of Zimbabwe's productive industry which have been on lean rations for a long time. If inflation is brought under control, and the government's debt overhang removed from the domestic credit market, money rates will fall and the manufacturing industry could embark on some much-delayed capital improvements. This would present an excellent opportunity for American plant and equipment exports, though the opportunities will be vigorously pursued by the country's traditional British and European trading partners, as well as the Asian tigers and newer suppliers, such as India and China.

The steep fall in manufacturing’s GDP share from a high of 26% in 1992 to less than 18% in 1999 illustrates three trends: (1) de-industrialization as firms restructure; (2) South Africa’s continuing dominance in the region; and (3) the strong performance of primary and service sectors relative to manufacturing. Design and implementation of an appropriate industrial strategy for the 21st century is imperative for Zimbabwe to remain competitive.

A key to future manufacturing growth in Zimbabwe -- and to attracting additional and, especially, foreign investment to the sector -- will be improved access to the South African market. Despite many years of intermittent negotiations, the GOZ has been unable to get its southern neighbor and most important trading partner to renew and extend the bilateral trade agreement that reportedly (by Zimbabwe) expired in 1992. The South African Development Community (SADC) trade protocol is expected to improve the situation, though for Zimbabwe to engage in

some of its fast-track proposals, the country must improve its highly precarious macro-economic standing. Manufacturing continues to be a prime target of GOZ investment promotion efforts.

Mining in Zimbabwe has suffered severely over the last two years. Causal factors are global weakness in commodity and metals prices, the very high domestic cost of borrowing, and since the beginning of the year the acute fuel and hard currency shortages. Though Zimbabwe produced 9 million ounces of gold in 1999, the latter two shortages may cause a drastic reduction from last year's output, which will further exacerbate the hard currency shortage. A break in the downward spiral must be engineered. Fuel and spare parts shortages have already resulted in a relatively small number of mine closings, though the Chamber of Mines warns that this may very soon become a landslide. A major blow occurred in June 1999, when BHP announced the closure of its Hartley platinum mine, Zimbabwe's largest post-independence private, overseas investment project. BHP blamed the closure on weak world prices and structural and engineering problems in the mine that prohibited profitable extraction. The closure resulted in the loss of 3,500 full-time jobs. Nevertheless, a few in the industry see the current times as an opportunity to position themselves for the cyclic rebound that may occur. Assets are cheap, they tell us, and when prices strengthen, good profits are to be had. However, an uncertain outlook for conditions in Zimbabwe make it a play for those not faint of heart.

Finance and Insurance Sectors continue, overall, to be profitable although banks are increasingly worried about the growth of non-performing assets in this difficult operating environment. Zimbabwe's services sector has experienced strong positive growth throughout the '90s and this trend is expected to continue when and if a better economic setting emerges. Construction has experienced very tough times recently, as the high cost of capital has stifled spending on projects and building, a situation exacerbated by the hard currency shortage that prevents the importation of required equipment and fixtures for new buildings. Private companies in the transportation sector have similarly been hit hard by the fuel shortage and hard currency shortage, the latter causing maintenance and fleet replacement difficulties. The private communication sector is, on the whole, doing well; although rising equipment import costs and the need to pay international connection charges in hard currency have tested their strength and resiliency. Price controls and mismanagement have resulted in huge losses at some of Zimbabwe's largest parastatals, including the Posts & Telecommunications Company, the national railways, the national oil company and the Zimbabwe Electricity Supply Authority.

IMF and World Bank: Zimbabwe is currently at a stalled position in its relations with the IMF, the World Bank, other multilateral institutions and Western Donors. Caught in a domestic debt trap, the country has seen a decline in terms of trade and a rise in uncertain confidence in its prospects. Though it has kept current with its payments to the IMF, it slipped over the 60 days mark in arrears with the World Bank on May 16. This has caused a suspension in payouts and new credit extension by the Bank, and the buildup in arrears will be difficult to zero out given reduced exports, the necessity to devalue and the balance of payments situation. In addition, the state-sanctioned violence and intimidation occurring in the run-up to the parliamentary elections will make the renewal of programs and relations with these institutions more difficult in the post-election period, in no small part because shareholder countries that have a board seat at

these institutions will view Zimbabwe in a very different light. Broadly put, the IMF and the World Bank's programs which had been negotiated and agreed upon in 1999 aimed to reduce the GOZ's domestic debt; so that the fiscal deficit can be brought down, government borrowing and interest rates reduced, and room created within the budget to reverse the deterioration in social services.

Inflation and Interest Rates: Inflation reached all-time highs in 1999, with the average annual rate for the year pegged at 58 percent. The unofficial rate for the May/June 2000 period, according to the business community and other observers/participants is higher, estimated at about 80 percent (imports taken into account). When Zimbabwe's inflation will peak is not predictable at this time, with the biggest unknown being the timing and degree of currency devaluation. Depending on both the foreign exchange rate movement and the pace of price hikes necessary to close the gap at money-losing state-owned companies, this high inflation environment could be drawn out through next year. Very high money supply growth rates in the first quarter of the year do not bode well for inflation reduction, as both monetary and cost-push factors are well embedded. Accurate predictions of inflation beyond year-end will have to wait until the country's post-election economic policies and donor support issue are clarified, and when Zimbabwe has made difficult choices backed up by action. Reflecting the high inflation, nominal interest rates have climbed and further increases are expected. Lending rates currently range up to 70 percent (unsecured), with the money market rate at about 55 percent and deposit rates ranging from 7 to 35 percent. Real interest rates are negative, which, if sustained for any length of time, could have serious consequences for the nation's savings base and investment profile. Clearly, in this rate environment capital spending is throttled and new business startups, with their need for funding, are discouraged.

Recent Budget Developments: Since 1991 the government has undertaken reforms to control and reduce the primary fiscal deficit. As a result in the early to mid-1990's the budget deficit, excluding interest payments, declined substantially as a percentage of GDP primarily as a result of wage restraint and civil service reform. However, in recent years runaway spending, ballooning interest payments and subsidies to state-owned companies have worked to mitigate these gains. Interest payments rose to about 9.5 percent of GDP in 1998, and constituted over 30 percent of the national budget. The percentage for 1999 will be higher (when official figures are released). The higher payments are not only the result of the fall in the currency's value (foreign debt, revalued at current official exchange rates, is about \$90 billion Zimdollars) and high domestic interest rates (domestic debt is about \$42 billion Zimdollars), but are the result of growth in the debt balance. Zimbabwe's national debt (all figures are in Zimdollars) increased from about \$2 billion in 1980 to \$10.4 billion in 1990, \$27 billion in 1994 and \$77 billion in 1997. It now stands at over \$145 billion. Of that amount domestic debt has been the fastest growing component, increasing from approximately \$78 billion at year-end 1999 to about \$100 billion at the end of April 2000. The causes are myriad, and examples include the cost of the Congo military intervention, a civil service pay raise of nearly 90 percent granted by Presidential decree in January (versus a 2000 budget increase of 30 percent), and alarming losses from state-owned companies. The Ministry of Finance released figures last year showing that combined losses from eight non-profitable parastatals totaled \$11 billion in the 18 months to December

1998. National Oil Company of Zimbabwe (NOCZIM), Zimbabwe Electric Supply Authority (ZESA), Post and Telecommunications Corporation (PTC), National Railways of Zimbabwe (NRZ), and the Grain Marketing Board (GMB) have all continued with their losses over the last 12 months. As the parastatals do not appear directly on the central government's balance sheet, and as the budget is accounted for on a cash basis, these losses will only be reflected in future years, further swelling non-interest expenditures or the debt burden. Falling government revenue, primarily a result of the economic slowdown, will have further negative effects on the deficit.

Unemployment: Unemployment is a very significant problem. The jobless rate is over 55 percent and growing. About a quarter of a million school-leavers enter the job market annually, and only a small fraction find employment in the formal sectors of the economy. Given Zimbabwe's dire economic situation, the outlook for formal sector job creation is bleak. Increasingly this year we are seeing job losses rather than gains, and the trend of scaled back workweeks could turn to shutdowns soon, if relief from the host of problems confronting businesses in Zimbabwe is not soon forthcoming. The chronically high cost of money continues to place great stress on non self-financing operations. Bankruptcies remain a problem, and many firms are skating close to the edge of insolvency.

Energy: The Zimbabwe Electricity Supply Authority (ZESA) has accumulated major losses in the last two years. Though it wants to reduce Zimbabwe's dependence on imports, currently about 45 percent of national consumption, it lacks the financial means to do so. Provided a program with the donor community and multilateral lenders is agreed to, some expansion of domestic supply could occur in the medium term. Zimbabwe has large coal reserves and significant hydropower resources but imports all of its petroleum products. The country is believed to have extensive coal-bed methane reserves and, possibly modest natural gas reserves in the Zambezi Valley. Zimbabwe currently imports power from Zambia, Mozambique, the Congo and South Africa. Other options it has considered include expanding the existing facility at Lake Kariba, enlarging the coal-fired Hwange plant, and developing new hydro facilities on the Zambezi.

Regional Economic Ties: South Africa remains Zimbabwe's most important trading partner, accounting for nearly 20 percent of total trade. Although progress has been made toward the rehabilitation of the Beira Corridor and Beira Port in Mozambique, Zimbabwe is still dependent on transport routes through South Africa. Relations with South Africa have followed somewhat of a roller coaster pattern, though pragmatism has usually won out. President Mbeki's leadership should not significantly alter the working relationship and may, in fact, improve it. Zimbabwe is a member of both the SADC and the Preferential Trade Area (PTA) for Eastern and Southern Africa. Both organizations are committed to increased trade and investment among member states.

Trade Relations with the United States: Zimbabwe's trade relations with the United States are generally very good. The fall over the last two years in the foreign exchange value of the local currency, coupled with the stiff tariff increases applied in November 1998 have made all imported goods, including those from the U.S., much more expensive. The high cost of capital

has severely affected capital spending (more than half of U.S. exports have traditionally been capital equipment) and, combined with the fall in real disposable income, all U.S. exports (capital and consumer goods) are negatively impacted. A turnaround of Zimbabwe's economy will see the release of substantial pent-up demand, especially for capital goods, and will present opportunities for American manufacturers and exporters. Principal Zimbabwean imports from the United States have been transportation equipment and parts, construction and farm machinery, computers and peripherals, chemicals and plastics, textile machinery and, more recently, food products. Zimbabwe's major exports to the United States are ferrochrome, nickel, tobacco, gold, sugar, and clothing. The United States is Zimbabwe's fourth leading developed-nation trading partner after South Africa, the U.K. and Germany.

SECTION III: POLITICAL ENVIRONMENT

The U.S.-Zimbabwe relationship is generally good. In the last year, however, President Mugabe and other ZANU-PF officials have criticized the United States, along with the British and other western governments, for what they perceived as interference in domestic politics. Those criticisms have arisen out of U.S. support for civil society organizations during the run-up to the February 2000 constitutional referendum and the June 2000 parliamentary elections. The government's draft constitution was rejected in February and the ruling party won only a little more than half the 120 contested constituencies, with 57 seats going to the new opposition party, the Movement for Democratic Change (MDC). Zimbabwe's foreign policy became less ideological in the early 1990's: the government distanced itself from radical non-aligned movement rhetoric, participated in UN peacekeeping operations, and played a leadership role in regional security matters through President Mugabe's chairmanship of the Southern African Development Community's (SADC) Organ on Politics, Defense and Security. Zimbabwe remains sympathetic to Iraq, Libya and Cuba, in their disputes with the United Nations Security Council. In August 1998 Zimbabwe intervened militarily in the Democratic Republic of the Congo (Congo) as part of the SADC allied forces (Namibia, Angola, and the Congo) to repel the military support of Rwanda and Uganda for Congolese rebels in the Congo that threatened the government of President Laurent Kabila. As of July 2000 Zimbabwe had deployed an estimated 13,000 troops to the Congo. Zimbabwe and other belligerents signed an initial cease-fire agreement in July 1999, which all the belligerents have renewed on two subsequent occasions this year. While the general cease-fire in the Congo is holding there have been continuing violations among and between allied states, putting in jeopardy the peace process in the Congo and a planned deployment of a United Nations peacekeeping mission.

President Mugabe, now in his 20th year as the country's chief executive, and the ruling ZANU-PF party are facing great political and social challenges. Zimbabwe remains, however, relatively stable, following a historic parliamentary election in which ZANU-PF won only a little more than half the contested seats. The President will appoint an additional 30 individuals (12 from Presidential appointments of non-constituency members, 8 from the governors who sit in parliament, and 10 from traditional chiefs, who are elected from among themselves, but who are generally pro-government), effectively giving ZANU-PF 92 of the 150 seats in Parliament. The ruling party is facing its most formidable opposition since independence in the ten-month old

MDC. The MDC will, however, face the difficulties of political inexperience and limited funding. The judiciary is independent, but the government occasionally refuses to abide by court decisions. In addition to the MDC, there are several other long-established but minor opposition parties in Zimbabwe, the United Parties, led by former Zimbabwe-Rhodesia Prime Minister Bishop Abel Muzorewa, ZANU-NDONGA, led by former liberation leader Ndabadingi Sithole (which won one seat in the June parliamentary elections), and the other smaller parties. Outside of the MDC, the other opposition political parties lack national constituents and are poorly funded. All the opposition parties are highly critical of the government's management of the economy, lack of respect for human rights and restrictions on democratic freedoms.

On July 1, 1999 veteran nationalist Vice President Joshua Nkomo died. Nkomo was replaced by Joseph Msika (77 years) in December of that year. The second Vice Presidency has been held by Simon Muzenda (78 years) since 1990. To date President Mugabe has not said whether he will run again when his current term expires in 2002 and has not indicated a preferred successor. Consequently, Presidential succession continues to be of great concern to people inside and outside of the ruling party.

The national voting pattern in the June parliamentary elections reflects a great desire for political and economic change among the most marginalized people of Matabeleland and urban youth, where ZANU-PF had its greatest losses. The legislative agenda for the new parliamentarians is likely to focus on fiscal reform, the halt of the economic plunge (with an aim of job creation), responsible governance, a coordinated land resettlement program, and constitutional reform.

Relations between the Shona, who make up 84 percent of the population, and Ndebele, 14 percent, have improved since 1987, when the two previously ethnic-based liberation forces (ZANU - Shona and PF-ZAPU - Ndebele) signed a unity accord creating ZANU-PF. A repeat of the inter-ethnic violence of the early 1980's in Matabeleland as carried out by the North Korean trained "Fifth Brigade" is highly unlikely. Members of the Ndebele community in Matabeleland continue, however, to express strong feelings of alienation by the Shona-dominated ZANU-PF government. Nevertheless, the people of Matabeleland rejected the ethnic appeals of a regional-based party "ZAPU" during the recent parliamentary elections and, instead, overwhelmingly supported the ethnically mixed list of MDC candidates. Ethnicity and sub-ethnic group alliances remain important for business advancement.

Race relations are relatively stable, considering the apartheid-like pre-independence history, and the President's frequent race-baiting political speeches. Yet the legacy of racial and economic divisions remains, creating two distinct societies – one white, affluent, and generally apolitical, and the other black, primarily poor, with only a minuscule black middle class, also largely apolitical. During the first half of this year, "war veterans," members of the National Liberation War Veterans Association, as well as pro-ZANU-PF youth too young to have known combat in the liberation war, occupied primarily white-owned commercial farms. The occupations, which continue as of this writing, were purportedly carried out by war veterans, supplemented by poor peasant farmers, to obtain land for agricultural resettlement purposes in response to the government's failure to carry out meaningful land reform up to that point. There is much

evidence that the occupations were, in fact, part of an orchestrated and state-sponsored plan to create instability in the farming community during the pre-election season. Over 30 deaths attributable to political violence were reported during the run-up to the parliamentary election and the farm occupations, including that of five white farmers, many black farm workers, and MDC supporters. Despite this racially charged political violence, four white MDC parliamentarians were elected in predominantly black constituencies for the first in Zimbabwe's post-independence history.

There are several areas of democratic ferment in Zimbabwe, notably, the increasingly vocal and organized civil society, an activist labor movement, and a parliamentary reform committee effort to make the legislature more responsive and efficient. Specifically, the NGO community has vowed to continue working in concert to bring about constitutional reform for greater democratization. The MDC is the most effective opposition voice in Zimbabwe since the early 1980s. The government's land reform program remains clouded due to the pre-election violence on the occupied farms directed at farm owners and their workforce and the government's rebuffing of international offers of assistance which were conditioned on a transparent and coordinated plan. Nevertheless, several countries, including the United States, and organizations like the UNDP remain prepared to support an appropriate land reform program and are already working with a technical unit which was set up by the government to implement aspects of the land reform program.

SECTION IV: MARKETING U.S. PRODUCTS AND SERVICES

Zimbabwe's economy is one of the most sophisticated in the developing world, with well-developed manufacturing and service sectors and a large variety of local and imported products available. Usage by foreign firms of local agents and distributors is common, with companies' selection of local representation often based on their existing distribution infrastructure and ability to provide after-sales service. In the early years after independence and due to the unavailability of foreign exchange, a supplier's ability to provide a service contract and spare parts was often a key determinant of success in the Zimbabwe market. Nowadays the cost and availability of financing is likely to be a key point in determining if a deal closes or not. While direct sales are possible without local representation, this tends to occur on discrete projects, often with World Bank or other international financing. For ongoing business and sustained market penetration, working with Zimbabwean partners or representatives is highly recommended.

Joint ventures are also popular, especially with the government and when they include black local partners. For most of Zimbabwe's independent history, joint ventures were the primary means of investing in the country. However, experience has shown that a joint venture can easily turn out to be a one-way street from abroad and careful examination of local partners' assets and track records is highly recommended. Licensing is also practiced, although it is not widespread. Again, foreign exchange availability and the cost of capital are significant obstacles to a successful business relationship.

Other than direct exporting to Zimbabwe, virtually any form of doing business here (i.e., establishing a sales office or a service facility) is considered an investment and requires approval by the Zimbabwe Investment Centre (ZIC). U.S. firms may wish to contact the Economic/Commercial Section of the U.S. Embassy as a first step.

Zimbabwe law guarantees protection for the holders of intellectual property rights and trademark, and patent disputes are rare. Copyright infringement is common, however, especially related to piracy of video cassettes and computer software. While Zimbabwe law also protects the rights of copyright holders, enforcement in this area is lax.

SECTION V: LEADING SECTORS FOR US EXPORTS AND INVESTMENTS

The following industries, in approximate rank order priority, are those in which the Embassy believes U.S. products are competitive and offer the best opportunities for export sales to Zimbabwe. In addition, the shortage (and related high cost) of capital in Zimbabwe means that investment opportunities, in the form of partnerships, joint ventures, start-up financing or buyouts, are plentiful. For more information on this, please contact the Embassy's Economic/Commercial section.

-- Agricultural Equipment: The agricultural sector accounts for about 40 percent of exports, with tobacco by far the most important crop, but it also includes cotton, sugar, horticultural crops, and beef. U.S. machinery is widely used, although, because of past import restrictions, the machinery often needs upgrading and replacement. To continue to grow and stay competitive, the horticultural segment will need to look at more sophisticated equipment and processing technology, as reliance on inexpensive labor will not suffice.

-- Transport Equipment: The existing fleet of buses, and to a lesser extent trucks, is old and inadequate. Privatization, when completed, of the National Railway may also offer opportunity for export sales from the United States.

-- Power Generation and Transmission Equipment: Years of insufficient investment and neglect in the power sector have led to capacity shortfall, and Zimbabwe faces a structural shortage of power. New capacity will have to be added through financing, as has been the case for years, continues to be the sticking point.

-- Telecommunications Equipment: Opportunities for U.S. companies in this sector with projected privatization of the Posts and Telecommunications Corporation (PTC) and continued cellular communications growth exist. The local telephone system with its mainly analog equipment, is still well below international standards, although projects to digitalize the exchanges are proceeding. The PTC is beginning an expansion and modernization program. The equipment needed ranges from satellite earth stations to switching equipment to rural communications systems and basic handsets. Paging service has not been introduced to the

market, nor other business services considered the standard elsewhere.

-- Tourism: Investment in existing operations or in new infrastructure and facilities offers good opportunities. With the cost of local capital so high, there is unmet demand though recent troubles have seen a sharp drop-off in arrival rates. The domestic flight network is presently inadequate, and opportunities for capacity increase exist.

-- Franchising: The GOZ views franchising as having significant potential to "indigenize" the economy by offering opportunities to black Zimbabweans. Several South African restaurant and retail chains have moved into Zimbabwe in recent years, and America-based Kentucky Fried Chicken and Subway are also operating, with other market opportunities available.

-- Textile Machinery: Zimbabwe's textile industry, once a major employer, could potentially be a major exporter, with the AGOA potentially contributing to this turnaround. One handicap is an outdated machinery base. A turnaround in this industry could offer major opportunities.

-- Food Processing and Packaging Equipment: Zimbabwe, an important exporter already of agricultural products, has the potential to increase its output of high-value products considerably. One constraint is the lack of processing and packaging capacity.

-- Engineering Services and Construction Materials and Equipment: If the macro economic situation improves, Zimbabwe has great pent-up demand for not only low cost housing, but for major infrastructure projects and rehabilitation. Zimbabwe needs the services of foreign engineering and construction companies, and must import a wide array of basic construction materials and equipment.

-- Mining: The mining sector currently offers excess capacity and bargains. The potential for development exists. Zimbabwe also has extensive coal deposits and substantial coal-bed methane resources that will be exploited in the future.

SECTION VI: TRADE REGULATIONS AND STANDARDS

There are three different types of payments upon importation of goods into Zimbabwe: customs duty, import tax, and surtax. These are described in the Harmonized System Tariff Handbook and other relevant subsequent legislation. At present, all imported goods are subject to surtax. The GOZ uses the General Agreement on Trade and Tariff (GATT) method of customs valuation.

In 1994, the GOZ ended the practice of requiring all imports to be licensed and also abolished the "official" exchange rate, although in January 1999, it informally pegged the value of the currency. The GOZ still controls, via the Grain Marketing Board, export of most agricultural commodities, and price controls, primarily on food staples and energy, remain in effect. All base minerals from mines are exported through the Minerals Marketing Corporation (a state-owned

company) with the exception of coal and asbestos. All gold produced in the country is required by law to be sold to the Reserve Bank, which then controls its disposition. All exports require a "CD 1" form to ensure that export proceeds are remitted back to the country and the allowable remittance period has been reduced to 90 days. Some wildlife products are restricted through international conventions governing their trade. An Export Processing Zone (EPZ) Authority has been appointed to attract export-oriented investment and to facilitate exports.

Zimbabwe is a member of both the SADC, an 11 nation grouping that has begun to explore greater economic/trade cooperation and eventual "regional economic integration, and the 22 nation Preferential Trade Area (PTA) of Eastern and Southern Africa, which provides for reduced duties on imports from member countries. Zimbabwe also has bilateral trade arrangements with Namibia and Botswana, and hopes to renew and expand its expired agreement with South Africa.

The GOZ maintains a "negative list" of prohibited items that require special permission from the government to import. The list includes nuclear reactors, radioactive materials, arms and ammunition, precious and semiprecious gems, gold jewelry, carbonated beverages for resale, and textile and clothing articles for resale.

The GOZ requires the following import documentation: a bill of entry plus relevant invoices, shipping documents such as a bill of lading, freight statements, and certificates of origin, especially for products entering from member states of SADC and the PTA.

The GOZ permits the temporary entry of goods for display purposes at trade shows. However, the importer must provide a guarantee by a local financial institution equal to the value of the relevant duties and taxes for such goods. The temporary import permit is issued by the Department of Customs and Excise and is subsequently discharged on the re-exportation of the goods.

SECTION VII: ZIMBABWE'S INVESTMENT CLIMATE

A. Zimbabwe's Investment Policies and Practices

Government of Zimbabwe (GOZ) officials generally recognize that foreign investment is needed to bring in necessary capital, technology and skills to create the jobs and opportunity that its rapidly growing workforce desperately needs. However, over the last two years the investment and operating climate in Zimbabwe has substantially worsened. Potential investors need to assess carefully this tougher environment, and to also factor in and plan for the government's goals for indigenization (black economic empowerment), privatization, and land reform. The results of recent, historic Parliamentary elections, in which the opposition "Movement for Democratic Change" party (MDC) won 57 of 120 contested seats, are considered very positive by many within and without Zimbabwe. It marks the first time since independence that the

ruling ZANU-PF party will have to work with a viable opposition that controls just over a third of the vote in the legislature. At the time of this report (a few weeks after the June 2000 parliamentary elections), there remains great uncertainty about government policies affecting the economy, the cabinet's composition, and the extent and means of cooperation with the opposition party. Government rhetoric and actions in the run-up to parliamentary elections in June 2000 have caused substantial damage to Zimbabwe's image as a potential investment destination, and the absence of clear indications on what steps the government will take to halt and reverse the country's severe economic slide makes assessment and planning very difficult. For example, this year's Annual Africa Competitiveness Report by the Davos, Switzerland-based World Economic Forum, places Zimbabwe 23 of 24 countries surveyed, down from its 21 ranking last year. The main reasons for the low ranking according to the forum are poor government policies vis-à-vis business and investment, political violence and promises by the chief executive to reintroduce price controls on an expanded range of basic goods. We urge potential or interested investors to contact the Economic/Commercial section of the Embassy for our assistance and latest information.

In the first decades following Zimbabwe's independence in 1980, the GOZ was highly suspicious of western investors. Investment proposals required a long and detailed evaluation process to determine whether they were a "good fit" with Zimbabwe's developmental needs. During this same period Zimbabwe's economy was characterized by a very high level of central state planning and control, based on the Marxist model. That situation improved since 1991, when the government embarked on a market opening effort and an Economic Structural Adjustment Program (ESAP) supported by the World Bank and the IMF. In late 1992, the Zimbabwe parliament promulgated the Investment Centre Act that provided a statutory basis for the Zimbabwe Investment Centre (ZIC), a one-stop shop ("mitigating the bureaucratic maze" in its own words), that is often the first port of call for all potential investors.

Reviews of ZIC's utility and helpfulness by potential foreign investors are mixed though generally positive, with the most common complaints being its opaqueness, slow speed and alleged occasional susceptibility to political influence. In 1995 government failure to meet targets for budget and civil service cuts and lack of progress in privatizing parastatals led the IMF to suspend funding for ESAP. In 1996 the government announced a second plan, the Zimbabwe Program for Economic and Social Transformation (ZIMPREST) running through the year 2000 ostensibly aimed at further liberalizing and opening the economy to free-market forces. The results of this latest effort have been very poor and far below expectations.

A1. Openness to Foreign Investment

In May 1989, the GOZ published guidelines for foreign investors in "The Promotion of Investment: Policy and Regulations." This document, updated in September 1991, is commonly called the "Investment Code" and has two dominant themes: it recognizes that foreign capital has played an important role in Zimbabwe's development, but it stresses that Zimbabweans should participate more fully in the country's economy. Accordingly, it notes that the GOZ prefers majority Zimbabwean participation in new investment projects and specifies that the

degree of local ownership will be a prime criterion in the evaluation of investment proposals.

The GOZ will consider majority or even 100 percent foreign ownership in high-priority projects, but will encourage arrangements for the eventual transfer of majority ownership to Zimbabwean interests. It is GOZ policy to take part in new investments by entering into joint ventures with private or domestic investors in strategic and basic infrastructure projects. However, given the government's cumulative deficit and resultant capital shortage, this type of activity is moribund. Outside of these areas, official GOZ participation will not be the general rule. Regarding privatization of Zimbabwe's parastatal companies, in late 1998 the government announced that foreign ownership would be limited to 15 or 20 percent, a reduction from previous levels of 30 to 35 percent. Progress on privatization has been very slow in the decade since it was identified as a priority, with only five organizations out of the 57 earmarked making the transition.

Other criteria for evaluation of proposed investments are:

- Socio-economic benefits for rural areas
- Transfer of technology and training opportunities for Zimbabweans
- Generation of substantial employment opportunities
- Balance of payment benefits through production of new exports
- Access to scarce managerial resources and to foreign markets
- Intensive use of local raw materials and processed inputs
- Use of labor-intensive technology easily adaptable to Zimbabwe's needs
- Substantial research and development expenditures

In June 1994, the GOZ gazetted an amendment to its investment regulations that listed specific sectors of the economy, industries, and business categories that are "reserved for domestic investors."

In agriculture and forestry, the following sectors are reserved

- A) primary production of food and cash crops
- B) primary horticulture
- C) game, wildlife ranching and livestock development
- D) forestry
- E) fishing and fish farming
- F) poultry farming

In transportation, the following sectors are reserved:

- A) road haulage
- B) passenger bus, taxis and car hire service of any kind
- C) tourist transportation (excluding airlines)

Other reserved businesses and industries are:

- A) retail/wholesale trade, including distribution of locally produced goods
- B) barber shops, hairdressing and beauty salons
- C) commercial photography
- D) employment agencies
- E) estate agencies
- F) valet services
- G) armaments manufacture, marketing, and distribution
- H) public water provision for domestic and industrial purposes
- I) railways operations
- J) grain mill products
- K) bakery products
- L) sugar products
- M) tobacco packaging and grading (post auction)
- N) tobacco products

Not all proposals for investment must be submitted to ZIC. One hundred percent locally owned investments can be registered with the registrar of companies without going through ZIC. ZIC approval is required only when there is foreign participation, including:

- Any proposal to establish a new business or project
- Proposals to expand an existing business that have a foreign exchange component
- Any proposal to acquire the whole or any portion of a Zimbabwean business by the purchase of assets (this requires exchange control approval)

The ZIC is authorized to approve proposals involving any foreign investor in any business field. After approval of a project, if foreign staffing or management is desired, the Ministry of Home Affairs through the Department of Immigration is responsible for the issuance of work permits for expatriate staff. Both initial and renewal issuance of work permits has, at times, proved problematic for foreign companies and investors.

ZIC's address and contact numbers are:

Zimbabwe Investment Centre

Investment House
109 Rotten Row
P.O. Box 5950
Harare

Telephone: (263) (4) 757931/4
Fax: (263) (4) 757937
E-mail: ZIC@harare.iafrica.com

A2. Right to Private Ownership and Establishment

The GOZ, under President Mugabe's leadership, still has a strong, residual desire to control as much of the economy as it can and has only grudgingly implemented key areas of reform. Privatization of state-owned companies, liberalization of foreign exchange policies, removal of price controls from food staples and energy are areas where progress has been sub-optimal. The local ownership requirement and the large areas of the economy where foreign investment is not allowed is another hindrance to business establishment and free cross-border capital and equity flows.

A3. Protection of Intellectual Property Rights

Since independence, Zimbabwe has applied international patent and trademark conventions. It is a member of the world intellectual property organization. Generally the GOZ seeks to honor intellectual property ownership and rights, although there are serious doubts about its ability to enforce these obligations. The Embassy is not aware of any grievances over such issues, although pirating of videocassettes and computer software is common. Remittances for royalties, technical services and management fees must be approved by the Reserve Bank. Remittances for royalties, technical services and management fees have been suspended by many companies with overseas ties, due to the severe hard currency shortage experienced in Zimbabwe since yearend 1999.

A4. Performance Requirements/Incentives

Several tax breaks are available for new investment by foreign and domestic companies. Capital expenditures on new factories, machinery and improvements are fully deductible and the GOZ waives import tax and surtax on capital equipment. Other incentives for investors include:

- Investment allowance of 15 percent in the year of purchase of industrial and commercial buildings, staff housing and articles, implements and machinery
- Investment allowance of 50 percent in the year of purchase for training, buildings and equipment

- Twenty-five percent special initial allowance on cost of industrial buildings and commercial buildings and machinery in growth point areas is granted as a rebate for the first four years
- Special mining lease provisions entitle the holder to specific incentive packages to be negotiated with the ministry of mines

Import duties (the reduction of which had been under discussion with both the IMF and the World Bank) and related taxes range up to more than 100 percent since their temporary hike following the Zimbabwe dollar's devaluation last year. The GOZ also has provided for the refund of sales taxes (15 percent) for capital goods purchased in Zimbabwe and intended for use in priority projects or investment in growth points. In 1996 the GOZ ended two programs that provided special incentives to local and foreign investors involved in export-oriented projects.

Any investment proposal that involves the employment of expatriates must present a strong case for doing so in order to obtain a work and residence permit. Normally, the maximum contract period for an expatriate is three years, but this will be extended to five years for expatriates with highly specialized skills.

There are no general performance requirements. Official policy, however, especially welcomes investment in enterprises that contribute to rural development, job creation, exports, use of local materials, and transfer of appropriate technology. There are no discriminatory import or export policies affecting foreign firms, although as noted earlier, the GOZ's approval criteria are heavily weighted toward export-oriented projects, especially from foreign investors.

Joint ventures are very strongly encouraged. While official policy supports "the maximum Zimbabwean participation" in any new investment project, no specific requirements for local participation have been defined. However, experience has shown that 30 percent local participation is a widely accepted benchmark minimum. Foreign investors are expected to provide for domestic equity participation at or prior to startup, and can expect to be approached early on by a wide range of potential partners, with some government officials desiring shares at no cost. Companies are expected to make maximum use of Zimbabwean managerial and technical personnel. Subject to Reserve Bank approval, foreign companies are allowed to provide capital equipment as an equity contribution to a joint venture.

The Government of Zimbabwe's policy has been that it intends to participate in new investments in "strategic" industries such as energy and mining. The terms of government participation will be determined on a case-by-case basis. However, the government's lack of funds in recent times, the cause of the dearth of new major investment projects, means that this policy has not been tested in practice for some time.

At the urging of Western donors and the IMF and the World Bank, the GOZ promulgated legislation establishing Export Processing Zones (EPZ's) and appointed an EPZ authority in 1996. However, a trade performance statute requires eligible companies to export at least 80

percent of output, a requirement that has limited foreign investment in the new zones. Other benefits include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising from the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ.

The Department of Customs continues to charge designated companies duties on exempted inputs and equipment. The EPZ authority approved over 15 projects in 1999. However, the economic slowdown, high inflation and interest rates, and the very uncertain outlook have slowed or halted movement on startup and completion. Investors are also encountering difficulties in connecting to telecommunication services and water and electric utilities. In 1999 exporters of manufactured products will be able to take advantage of new tax incentives included in the year's budget. Those companies exporting at least 40 percent of their output will receive an 8 percent tax break, while new companies exporting at least 50 percent will receive a 10 percent break.

In the original legislation, the provisions of the Labor Relations Act (LRA) would not apply within the zones. Due to strong advocacy from the labor movement, the Ministry of Public Service, Labor and Social Welfare has agreed with the Ministry of Justice to amend the act so that the LRA indeed would apply.

A5. Transparency of the Regulatory System

GOZ official policy is to encourage competition within the private sector, and the government is concerned about an "over-concentration" of market clout among only a few companies in many industries. At present, many bureaucratic functions in this still heavily controlled economy are less than fully transparent and can by no means be considered streamlined. Corruption within the regulatory system is increasingly worrisome. However, GOZ regulators generally perform their functions forthrightly, as do the courts.

A6: Corruption

According to anecdotal evidence and a recent survey conducted by Transparency International Zimbabwe, corruption at all levels within government is increasing. Many companies and the police do not have appropriate tools or skills for investigating and checking corruption, though the legislative and criminal law framework exists (for example, acceptance of bribes is a criminal offense). Several U.S. Firms have protested problems involving major government tenders and the lack of transparency in the Government Tender Board's management of the cases. Tenders in the telecommunications, power and aviation sectors have been particularly notorious. Given the Zimbabwean judiciary's continued reputation for fairness and independence, if properly prepared corruption cases come to trial, there are convictions. Cases involving high or prominent ruling party or government officials usually do not reach court, regardless of the magnitude or egregiousness of the offense.

In the second quarter of 2000, the Parliament adopted a constitutional amendment that provides

for the creation of an anti-corruption commission. Many, though, disagree with the design, structure and lack of independence of the commission, arguing that with all the members being appointed by the President and the commission itself reporting to his office it will only become another method of exercising political influence in a country where executive power already is excessive. Zimbabwe Republic Police are generally well disciplined, but do not give the stamping out of corruption any special priority. Recent instances of massive corruption, including in Harare's municipal government and at the National Oil Company of Zimbabwe show that in many government entities, especially the parastatals, corrupt practices are widespread. Unless such practices are aggressively checked, Zimbabwe's investment and business climate will suffer further damage.

A7. Labor

With up to 300,000 secondary school graduates or dropouts entering the job market every year to compete for merely 1,000-2,000 new formal sector jobs, there will be no shortage of unskilled/semi-skilled labor in Zimbabwe for the foreseeable future. However, a growing shortage of technical skills is becoming evident, exacerbated by a growing brain drain to South Africa and elsewhere. It has reached such serious proportions that it is having an effect on investment decisions. While Zimbabwe has, on average, one of the best-educated labor forces in Africa, the industrial sector is concerned that not enough young Zimbabweans are receiving technical training to replace retiring workers, or to meet the new demands of industry utilizing more sophisticated equipment and production technology. The country's HIV/AIDS epidemic (approximately one of four adult Zimbabweans are HIV positive) also is taking a heavy toll on the workforce, with the worst effects of the disease still to come. For example, the AIDS mortality rate, currently estimated at 1,700/week, or 90,000 per year, will climb sharply in coming years. Nonetheless, Zimbabwe's abundance of unskilled labor implies greater viability for the investor who envisions establishing relatively low technology, labor intensive facilities rather than high-tech, capital intensive ventures.

The 1985 Labor Relations Act sets strict standards for occupational health and safety, but enforcement is not consistent throughout the industrial sectors. In addition, the GOZ sets a maximum workweek and minimum wage. The workweek averages 40 hours, but can go as high as 60. The law mandates a 24-hour rest period each week. Minimum wages are set by the government along sectoral lines. Some workers also are provided allowances and expenses for food, transportation, and housing. Wage increases have lagged considerably behind the rate of inflation (currently exceeding 60 percent on an annualized basis), causing a severe drop in disposable income and purchasing power. The GOZ largely adheres to ILO conventions protecting worker rights.

Labor relations have become particularly fractious between labor and government in Zimbabwe since 1997, and are less so between labor and management, as economic conditions in the country have deteriorated. Workers negotiate wages and other benefits with employers during the annual collective bargaining season that runs from approximately April to June each year. A National Employment Council (NEC) in each industry, consisting of representatives from labor,

business, and government, is the vehicle through which collective bargaining takes place. In addition, the Zimbabwe Congress of Trade Unions (ZCTU), the country's umbrella labor organization, consisting of 35 member unions and about 300,000 members, is a powerful advocate for workers to both business and government. Through both the NECS and the ZCTU, workers in all sectors have demanded repeated salary increases in 1999 and 2000 to compensate for the high inflation and cost of living, in many cases striking until their needs were addressed. In almost all industries, employers have approved at least two or three separate salary hikes since early 1999.

Although the GOZ still maintains an historically paternalistic attitude toward labor, reserving the right to intervene in issues of concern in the workplace, the high profile and politicization of the ZCTU in recent years has forced government to engage more seriously in dialogue with the labor movement. Increasingly critical of what they saw as the GOZ's failure to manage the economy and backed by widespread support from urban workers, ZCTU leaders organized two successful nationwide "stayaways," or work stoppages, in November 1998 to demand salary increases.

Ultimately, they decided to move the fight to the political arena, launching from organized labor's structures the "Movement for Democratic Change" (MDC) opposition party in November 1999. During the historic parliamentary elections in June 2000, the MDC won a record 57 of the 120 contested seats, reintroducing multipartyism in a country whose ruling party, ZANU-PF, had totally dominated parliament since independence in 1980.

A8. Efficient Capital Markets and Portfolio Investment

Zimbabwe's stock market (65 companies listed) is small, trading is quite thin, and most small companies are closely held. In September 1996 the GOZ opened the stock and money markets to limited foreign portfolio investment. Since then a maximum of 40 percent of any locally listed company can be foreign owned with a single investor acquiring a maximum of 10 percent of the shares on offer. Foreign participation in the bond market is restricted to the primary market and only 35 percent of invested capital may be invested in bonds. The major opportunity for foreign investors is in the equity market. New portfolio investment in Zimbabwe has been very limited in recent quarters as the country's macro-economic outlook and fundamentals continue to decline, though some bargain hunting has occurred as exchange rate changes made Zimbabwean shares extremely cheap in outside currency terms. Recent very high inflation and interest rates have also acted as a brake on share price activity and appreciation, with local investors reaping high rewards in the short-term money market.

Zimbabwe's financial sector is, relative to the business base and in comparison to all its neighbors but for South Africa, quite large and well developed. An impressive variety of financial instruments are traded, including debentures, private sector bonds, bankers acceptances, treasury bills, municipal and utility bonds. Two major international commercial banks and a number of domestic ones operate with over 194 branches. The merchant and investment banks are quite sophisticated and agile. The well-publicized failure of a number of

financial institutions, primarily due to fraud and inept management, has raised concern over the oversight capability of the reserve bank and the financial soundness of a number of the smaller players. The government's action to informally cap the exchange rate of the Zimbabwe dollar in January 1999 (effectively halting devaluation) has raised concern about creeping government control and a return to the centrally-controlled economy of the 1980s. Revised banking regulations have been criticized for reducing the independence of the central bank in carrying out its monetary policies. While the RBZ is a major force in setting interest rates (through reserve requirements and the discount rate), rates are primarily market driven. In addition, a parallel market for hard currency at non-official rates has emerged. Conducted by financial institutions with no interference from the government, this market now handles the vast bulk of foreign exchange transactions. There have been no instances of hostile takeovers within the financial sector.

A9. Conversion Transfer Policies

Zimbabwe is currently experiencing an acute hard currency shortage that, among other things, has caused very serious fuel shortages, default on sovereign debt, and severely negatively affected industrial, agricultural and mining operations.

In 1991 under the ESAP program, the GOZ began to liberalize dividend remittability above the prior 25 percent cap. Advantage was given first to new, post-independence investors and especially to those with an export orientation. On January 1, 1994, the GOZ raised the rate of repatriation for pre-1979 investments from a maximum of 25 to 50 percent of after-tax profits. As of January 1, 1995, all foreign investors in Zimbabwe may remit up to 100 percent of their after-tax profits.

Blocked remittances, and/or pre-May 1993 profits that could not be sent overseas, were held in below market rate interest bearing accounts or government securities. Previously, these funds could be reinvested in projects as long as they were matched by an inflow of foreign currency (on a one-to-one basis). Profits from these new investments could be remitted at a rate of 100 percent. In September 1995, the Reserve Bank of Zimbabwe (RBZ) announced and followed-up on plans to remove restrictions on the repatriation of blocked funds and dividends, and to release such funds over a three-year period.

An initial foreign capital investment made after September 1, 1979 may be fully repatriated; less any income transferred, without restriction. The corporate profits tax rate for both foreign and domestic companies is 37.5 percent. The GOZ allows a variety of deductions for depreciation, training, research, and investment in growth points.

Despite making the Zimbabwe dollar convertible for current account purposes, the GOZ still strictly controls all capital outflows. These controls extend to prospective outward investment, as well as to dividend remittances. Relatively few Zimbabwean firms have made investments outside the country, and most of these are in neighboring nations. Traditionally, however, investment by Zimbabweans outside their country has been something of a sore point with the

GOZ, which suspects that they may actually represent disinvestment from Zimbabwe or capital flight, rather than true foreign investment. A case in point are the textile manufacturers who relocated to Botswana in order to take advantage of that country's easy access to imports and foreign exchange for the purpose of exporting back into Zimbabwe.

A10. Expropriation and Compensation

Zimbabwe's constitution prohibits the acquisition of private property, agricultural land excepted, without compensation, and the GOZ has repeatedly stressed that it is committed to maintaining the legal protection of private property. Recent rhetoric and actions by the president and top cabinet members, including the government's sanctioning of land invasions by "war veterans," and the previous parliament's approval in April 2000 of Constitutional Amendment No. 16 authorizing the compulsory acquisition of privately owned commercial farms with compensation limited to the improvements made on the land, calls into question the government's respect for property rights. The government's oft-repeated intention to acquire land (of large, mainly white-owned commercial farms) and begin the resettlement process whether or not the government has the money to compensate the owners has raised serious questions about the outlook and future viability of this core economic component. Amendment no. 16 may, however, be reviewed by the incoming parliament now containing 58 opposition members. Besides the fate of the country's largest export earning sector and its hard currency stream, Zimbabwe's food self-reliance is also under threat from these actions.

Currently there are no investment disputes or outstanding expropriation or nationalization claims being contested in the courts, though this may change in the immediate term depending on property seizures and the government's role. The GOZ has, since independence, bought out a number of foreign investors, but always on a willing buyer/willing seller basis. To date it has done the same when buying commercial farms; paid market value on a willing buyer/willing seller basis, though this practice looks set to change.

A11. Dispute Settlement

In the event of any investment dispute, the government of Zimbabwe will agree to submit the matter for settlement by arbitration, according to the rules and procedures promulgated by the United Nations Commission on International Trade Law (UNCITRAL), once the investor has exhausted the administrative and judicial remedies available locally. We are not aware of any investors who have resorted to this option.

To increase investor confidence, the GOZ acceded to the 1965 convention on the settlement of investment disputes between states and nationals of other states, and to the 1958 New York convention on the recognition and enforcement of foreign arbitral awards. Zimbabwe's judiciary has a well-deserved reputation for fairness and independence.

A12. Political Violence

The period leading up to the June 24 and 25, 2000 parliamentary elections saw unprecedented state and ruling ZANU-PF party sanctioned and sponsored violence in nearly all areas of Zimbabwe. Over 35 fatalities occurred, most of them being opposition “Movement for Democratic Change” (MDC) supporters. Members of National Liberation War Veterans Association and other ruling party faithful were encouraged to invade commercial farms and brutalize and intimidate white farmers and their black workforce. Violence, committed by both sides, also occurred in high-density suburbs and peri-urban areas. Continued economic decline may very well translate into further violence and protests in urban centers, as was seen two years ago when government-controlled consumer prices were sharply increased. During the first few years of independence, ethnic-based strife between the two major political parties (ZANU and ZAPU) resulted in the deaths and arrests of thousands of Ndebeles in the western regions of the country with much of the violence in Matabeleland carried out by the North Korean-trained “Fifth Brigade” in a so-called purging exercise known as the “gukurahundi”. The 1987 unity accord that merged the two parties put an end to that period of violence. While the violence levels have subsided since the parliamentary election, the probability of politically or economically-motivated violence remains uncomfortably high in our opinion, at present it is not possible to predict when such probability will decline.

B. Bilateral Investment Agreements

Zimbabwe currently has bilateral investment agreements in force with Germany, the United Kingdom, Portugal, Switzerland, Malaysia, Mozambique, China and is negotiating (albeit slowly) bilateral investment treaties with Italy and the Netherlands.

C. OPIC and other Investment Insurance Programs

The GOZ and the U.S. Government concluded an updated OPIC Agreement in April 1999. Zimbabwe acceded to the World Bank's Multilateral Investment Guarantee Agency (MIGA) in September 1989. Most major donor countries make available their trade finance and export promotion programs, as well as investment coverage. Zimbabwe's recent difficulty in meeting its foreign debt obligations may threaten this coverage in the future.

D. Foreign Direct Investment Value

Foreign investment has played a crucial role in Zimbabwe's development. At the end of the 1970's foreigners owned an estimated 70-80 percent of the listed corporate sector. Today offshore ownership of shares on the Zimbabwe Stock Exchange has fallen to approximately 40 percent (10 percent individuals, the remainder institutional or corporate). However, from independence in 1980 until the introduction of the precursor of the present structural adjustment program in 1990, new foreign investment amounted to only about U.S. \$27 million. A survey conducted in the late 1980's by the Confederation of Zimbabwe Industries (CZI) indicated that 25 percent of industrial concerns have some foreign ownership. Because these include many of

Zimbabwe's largest companies, they still account for 40-50 percent of industrial output. Estimates of the value of overall foreign investment run as high as U.S. \$5 billion (replacement cost).

Major foreign investors

The vast majority of this investment predates independence and is held by British and South African interests. The largest investors are Anglo-American (SA), Lonrho (UK), and, until recently, BHP (Australia), which together dominate the mining and lumber industries and have large interests in manufacturing, agriculture (primarily tobacco, coffee, tea and sugar), and retailing. During the 1980's the GOZ bought interests in a number of foreign-owned firms, in some cases buying them out completely -- but always on a willing buyer/willing seller basis. Many foreign-owned firms, especially South African, localized their Zimbabwean subsidiaries through management buy-outs. The creation of the Southern African Development Community (SADC) with a specific mandate to promote economic integration in the region and to facilitate flows of trade and investment is still a work in progress. The U.S. Government through the U.S./SADC Forum is strongly committed to working to improve the viability of SADC.

There are about 45 U.S. companies operating in Zimbabwe, with estimated net assets of more than U.S. \$400 million. Some of the familiar brand or company names include IBM; Coca-Cola; H.J. Heinz; Colgate; NCR; 3M; Caterpillar; Compaq Computer, and Cargill. U.S. firms play a major role in the tobacco processing industry and are major players in the distribution of retail petroleum products (Mobil and Caltex).

SECTION VIII: TRADE AND PROJECT FINANCING

Zimbabwe has a relatively sophisticated and well-developed financial system, which, because of the country's colonial heritage, closely follows the British pattern. The Reserve Bank of Zimbabwe (RBZ) is the central bank and is responsible for oversight of the banking system. It is somewhat independent of government in exercising monetary controls and advising government on fighting inflation, including on occasion criticizing, for example, the GOZ's lack of fiscal discipline. However, that said, over the last two years it has yielded to government pressure on matters such as deficit spending by providing very substantial overdraft facilities and allowing money supply to balloon. The rest of the banking system is composed of: discount houses that act as intermediaries between the RBZ and the rest of the financial sector; commercial banks, which are the largest subsector; acceptance houses/merchant banks, whose main function is to finance trade, underwrite share offerings of listed companies, and assist in mergers and acquisitions; finance houses, which usually lend directly to consumers; building societies, which provide mortgages for real estate transactions; the Post Office Savings Bank, a government-owned institution that invests only in GOZ paper; and development banks that are government-owned and primarily finance targeted industries. Other key players in Zimbabwe's financial sector include insurance companies, pension and provident funds, a few investment trusts and offshore portfolio investors.

The current high interest environment (65 percent plus money rates), the hard currency shortage and Zimbabwe's declining credit standing make all forms of financing, including trade and project, a challenging task. Before the current crisis, almost all forms of local and foreign currency, short, medium, and long-term finance were available through the banking system. Export-specific facilities included pre-shipment export financing and approved bank advances for working capital needed to execute an export order. Post-shipment export financing had also been available to cover the period between shipment and receipt of payment. Other forms of trade-related support include drawback of duties on imported inputs for products that are eventually exported, and bonded warehouses. Project financing is available from two Zimbabwean development banks and a venture capital company. Local merchant banks also are able to mobilize capital from domestic sources for projects. Again the very high interest rate environment has made use of such facilities extremely challenging for businesses. The U.S. Government-owned Overseas Private Investment Corporation (OPIC) remains interested as of this writing in participating in and coordinating the financial structuring of new ventures in Zimbabwe. Growing problems with arrears may change this, and has already affected facilities from the World Bank, the International Finance Corporation and the European Investment Bank. The U.S. Export-Import Bank currently offers its full product line in Zimbabwe, though this may change.

Zimbabwean Banks and their U.S. Correspondents:

Reserve Bank of Zimbabwe: Federal Reserve Bank of New York, Bankers Trust, Chemical Bank, and Chase Manhattan

Barclays Bank of Zimbabwe Ltd.: Barclays Bank of New York and Chemical Bank

Standard Chartered Bank of Zimbabwe Ltd.: Standard Chartered Bank of New York

Zimbabwe Banking Corporation Ltd.: Chemical Bank, Citibank, Chase Manhattan, Bank of New York, and Bankers Trust

Stanbic Bank Ltd.: ANZ Bank of New York and Bankers Trust

Commercial Bank of Zimbabwe: Standard Chartered Bank of New York

First Merchant Bank: Chemical Bank and Bankers Trust

SECTION IX: BUSINESS TRAVEL

The Zimbabwean business community is nearly fully emerged from the cocoon of 15 years of

isolation caused by international sanctions during the 1965-80 "Unilateral Declaration of Independence" period and the statist socialist policies during the first decade of Zimbabwe's independence. Business customs generally follow the British model, with management practices and general approaches being quite conservative. Despite the progress in decontrolling and opening up the economy during the early 1990's, red tape, bureaucracy, and at times corruption, are still formidable obstacles to doing business. Moreover, there can be a distinct lack of transparency and an arbitrary character in government decision making. That said, however, patient and persistent companies, especially those with effective local representation, can usually succeed in Zimbabwe if their finances and product or services lines are in order.

Visitors to Zimbabwe must have valid travel documents, possess adequate funds to support themselves during their stay, and have a return ticket. Visitors staying less than six months will face minimal customs and immigration formalities. U.S. passport holders do not need visas for stays of three months or less; however, they must pay entry fees currently ranging from U.S. 30 to 55 dollars. Presently there are no U.S. Government travel advisories in effect for Zimbabwe

Zimbabwe business holidays include: New Year's Day, Independence Day (April 18), Good Friday through Easter Monday, Worker's Day (May 1), Africa Day (May 25), Heroes and Defense Forces Days (August 11 & 12), and Christmas and Boxing Days (December 25 & 26).

Zimbabwe has a good infrastructure, with well-developed road networks. It has good air connections with other countries in the southern and eastern regions of Africa, as well as with several European countries. Its telecommunications system is being upgraded, but is still plagued by problems. Office and residential accommodations are excellent, and the cost of living, while rising, remains lower than most world capitals.

SECTION X. ECONOMIC AND TRADE STATISTICS

APPENDICES

Appendix A: Country Data

1999 Population Estimate: 12 million

Population Growth Rate Estimate: 3.1 percent

Government System: Multiparty Democracy (with very strong single party dominance)

Religions: Roughly half of the population adheres to indigenous religions, with the other half

practicing one of many Christian denominations. Of the latter, about a third is Roman Catholic.

Ethnic Groups and Languages: Africans are in a majority. About 72 percent of the population are various Shona clans and 17 percent are Ndebele, with nine percent belonging to a number of smaller tribes. About two percent of the population is Caucasian, Asian (from the Indian subcontinent), or Colored (mulatto). English is widely spoken among all ethnic groups in addition to their tribal language. Some Afrikaans is spoken in the white and colored communities.

Work Week: A Monday-Friday, 40-hour workweek is common. Many establishments close for an hour at lunch. Most retail outlets are open Saturday mornings, while very few are open on Sundays.

Literacy Rate: Approximately 70 percent (all age groups)

Appendix B: Domestic Economy

(In millions of U.S. dollars unless otherwise indicated)

DOMESTIC ECONOMY	1997 (actual)	1998 (actual)	1999 (actual)
Real GDP Growth (%)	3.0	1.6	0.1
GDP Per Capita (current USD):	467	427	432
Govt. Spending (% of GDP)	34.3	35.2	34.8
Inflation (CPI)	19.0	53.0	61.2
Unemployment (%)	55.0	58.0	60.8
Foreign Exchange Reserves:	232.0	80.0	88.0
Debt Service Ratio (% of GDP)	58.9	70.1	82.0
U.S. Economic Assistance	18.0	14.0	10.3
Average Exch. Rate (US\$1.0)	18.0	40.0	38.0

Source of Data: Central Statistical Office, Reserve Bank

APPENDIX C: Trade Data

Total Country Exports (FOB)	2496.0	2486.0	falling
Total Country Imports (FOB)	2247.0	2684.0	----
U.S. Exports (FAS)	90.7	82.0	90.0
U.S. Imports	133.0	139.4	142.0

Appendix D: Investment Statistics (U.S. \$ M)

A: Total foreign investment since 1980	1400
Total U.S. investment	350
U.S. investment since 1993	95 (est.)

XI. U.S. AND Zimbabwean ContactsAppendix E: U.S. and Zimbabwean Contacts

Zimbabwe Government Agencies:

Ministry of Industry and Commerce
 Private Bag 7708 - Causeway
 Harare, Zimbabwe
 Tel: (263)(4) 702731, 791823/7, 730633
 FAX: (263)(4) 704116

ZimTrade
 Box 2738
 Harare, Zimbabwe
 Tel: (263)(4) 706772, 731020, 732974/7
 Fax: (263)(4) 706930

Zimbabwe Investment Center
 Box 5950
 Harare, Zimbabwe
 Tel: (263)(4) 757931/6
 Fax: (263)(4) 757937, 759917

Reserve Bank of Zimbabwe
 P.O. Box 1283
 Harare, Zimbabwe
 Tel: (263)(4) 790731, 703000
 Fax: (263)(4) 708976, 705978, 705979

Trade Associations and Chambers of Commerce:

Zimbabwe National Chamber of Commerce
 Box 1934
 Harare, Zimbabwe
 Tel: (263)(4) 753444/9
 Fax: (263)(4) 753450

Confederation of Zimbabwean Industries
Box 3794
Harare, Zimbabwe
Tel: (263)(4) 772763/7
Fax: (263)(4) 750953, 702873

Commercial Farmers Union
Box 1241
Harare, Zimbabwe
Tel: (263)(4) 791881
Fax: (263)(4) 750754, 752614

Commercial and Merchant Banks:

Barclays Bank of Zimbabwe Limited
Box 1279
Harare, Zimbabwe
Tel: (263)(4) 753507, FAX: 754241

Zimbabwe Banking Corporation
Zimbank House
First Street/Speke Avenue
Harare, Zimbabwe
Tel: (263)(4) 757471/5, Fax: (263)(4) 735600

First Merchant Bank of Zimbabwe Limited
Box 2786
Harare, Zimbabwe
Tel: (263)(4) 703071
Fax: (263)(4) 738810

Standard Chartered Bank Zimbabwe Limited
P.O. Box 373
Harare, Zimbabwe
Tel: (263) (4) 752864/9, 708585
Fax: (263) (4) 752860, 758076, 725667

Standard Chartered Merchant Bank
Standard Chartered Bank Building
Cnr. 2nd and Nelson Mandela Avenue
Box 60
Harare, Zimbabwe
Tel: (263)(4) 708585
Tel: (263)(4) 725667

U.S. Embassy Trade Personnel:

Mark S. Prokop
Economic/Commercial Chief
U.S. Embassy Harare
Department of State
Washington, D.C. 20521-2180
Tel: (263) (4) 794521/5
Fax: (263) (4) 796487

Vincent Musandu or Sandra Mowadzwa
Commercial Specialists
U.S. Embassy Harare
P.O. Box 3340
Harare, Zimbabwe
Tel: (263-4) 758806
Fax: (263-4) 758802

Washington Based USG Contacts:

Charles Gurney
Country Desk Officer for Zimbabwe
U.S. Department of State
Washington, D.C. 20520
Tel: (202) 647-9862
Fax: (202) 647-5007

Eric Henderson
Desk Officer for Southern Africa
U.S. Department of Commerce
Washington, D.C. 20230
Tel: (202) 482-4228
Fax: (202) 482-5198

Ann Marie Emmet
Loan Officer
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571
Tel: (202) 566-8008
Fax: (202) 566-7524

XII. MARKET RESEARCH AND TRADE EVENTS

APPENDIX F: Market Research

As a medium-sized Embassy in Africa, the post operates with limited resources producing a restricted number of research reports. However, there are market research companies in Harare that can carry out targeted or specialized projects on a commercial basis. Please contact the Embassy for further information.

APPENDIX G: Trade Events Schedule

Harare Agricultural Show: Annually, Harare

Zimbabwe's Business and Industrial Trade Exhibition (ZIMBEX): Early November (TBD), Annually, Harare

Zimbabwe International Trade Fair (ZITF): Early May, Annually, Bulawayo.

Note: The American Embassy Harare assists American exhibitors participating at the annual ZITF show in Bulawayo and ZIMBEX in Harare.